UNITED NATIONS

A

General Assembly

Distr.
GENERAL

A/51/509
16 October 1996

ORIGINAL: ENGLISH

Fifty-first session
Agenda item 84

UNITED NATIONS RELIEF AND WORKS AGENCY FOR PALESTINE REFUGEES IN THE NEAR EAST

Report of the Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East

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96-27876 (E) 241096

I. INTRODUCTION

A. Origin and background of the Working Group

1. The Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) was established by the General Assembly under resolution 2656 (XXV) of 7 December 1970 to study all aspects of the financing of the Agency. In that resolution, the Assembly requested the Working Group to assist the Secretary-General and the Commissioner-General of UNRWA in reaching solutions to the problems posed by the Agency's financial crisis.

2. At the twenty-fifth session and all those that followed, the General Assembly considered the reports submitted to it by the Working Group 1/ and adopted resolutions commending the efforts of the Working Group and requesting it to continue them for a further year. 2/

3. The Working Group consists of the representatives of France, Ghana, Japan, Lebanon, Norway, Trinidad and Tobago, Turkey, the United Kingdom of Great Britain and Northern Ireland and the United States of America. The Chairman of the Working Group is Mr. Huseyin Çelem of Turkey.

B. Consideration of the report of the Working Group at the fiftieth session of the General Assembly

4. The report of the Working Group on its activities in 1995 (A/50/491) was considered by the General Assembly at its fiftieth session under agenda item 84, entitled "United Nations Relief and Works Agency for Palestine Refugees in the Near East". At the 3rd plenary meeting on 22 September 1995 the Assembly decided to include the item in its agenda and to allocate it to the Special Political and Decolonization Committee (Fourth Committee), which considered it at its 12th, 13th and 25th meetings, on 30 and 31 October and on 30 November 1995.

5. At the 25th meeting of the Committee, on 30 November 1995, the representative of the Netherlands introduced a draft resolution entitled "Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East" (A/C.4/50/L.12), sponsored by Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the the United Kingdom of Great Britain and Northern Ireland.

6. Under the terms of the draft resolution, the General Assembly would:

(a) Commend the Working Group for its efforts to assist in ensuring the financial security of the Agency;

(b) Take note with approval of the report of the Working Group;

(c) Request the Working Group to continue its efforts, in cooperation with the Secretary-General and the Commissioner-General, for the financing of the Agency for a further period of one year;

(d) Request the Secretary-General to provide the necessary services and assistance to the Working Group for the conduct of its work.

7. At the same meeting, the Committee adopted the draft resolution without a vote.

8. At its 82nd plenary meeting on 6 December 1995, the General Assembly considered the draft resolution regarding the Working Group, which had been recommended by the Special Political and Decolonization Committee (Fourth Committee), together with other draft resolutions under this item. At the same meeting, the Assembly adopted the draft resolution without a vote as resolution 50/28 B.

II. ACTIVITIES OF THE WORKING GROUP DURING 1996

9. Throughout the year, the members of the Working Group have followed with concern the difficulties experienced by the Agency and, in particular, the serious financial situation it continued to face. The Working Group held two meetings, on 13 September and 14 October 1996, to consider the recent developments in the Agency's financial situation and to prepare its report to the General Assembly. The Working Group adopted its report at its meeting on 14 October 1996.

10. At its 115th meeting, on 13 September 1996, the Working Group heard the representative of UNRWA in New York, who submitted an up-to-date report on the financial situation of the Agency. On 18 September 1996, the Working Group held an informal meeting to discuss the Agency's financial crisis. The Working Group gave further consideration to the representative's report at its 116th meeting, on 14 October 1996 (see sect. III below).

III. FINANCIAL SITUATION OF THE UNITED NATIONS RELIEF AND WORKS AGENCY FOR PALESTINE REFUGEES IN THE NEAR EAST

11. UNRWA ended the 1994-1995 biennium with an adjusted deficit of $14.4 million in its regular budget, resulting from expenditures of $546.6 million as against adjusted income from contributions of $532.2 million. Of that deficit, $6 million was recorded against 1994 and $8.4 million against 1995. Those shortfalls reduced the Agency's working capital by more than half, from $22.6 million at the beginning of the biennium to $8.2 million at its close. Separately from the activities financed under UNRWA's regular budget, the Agency continued in 1994-1995 to operate a fund for extraordinary measures for Lebanon and the occupied territory (EMLOT), which had been created in 1990 to provide emergency assistance to Palestine refugees in areas of special crisis. Total EMLOT expenditure in 1994-1995 amounted to $28.4 million against receipts of $20.8 million, leaving a deficit of $7.6 million which had to be funded out of working capital. The Agency also operated a number of

extrabudgetary accounts. The Peace Implementation Programme (PIP), introduced in October 1993 following the signing of the Declaration of Principles on Interim Self-Government Arrangements between the Palestine Liberation Organization (PLO) and the Government of Israel, aimed to make the results of the peace process felt at the local level through a wide-ranging investment programme to develop infrastructure, improve living conditions and create employment opportunities in refugee communities throughout UNRWA's area of operations. As at June 1996, the Agency had received a total of $192.6 million in pledges and contributions under PIP. The establishment of PIP made redundant the Expanded Programme of Assistance (EPA), established in 1988 with the aim of improving living conditions in refugee camps and upgrading UNRWA's infrastructure in the West Bank and the Gaza Strip, and subsequently in the entire area of operations. EPA would be phased out upon completion of projects funded in previous years. Special project accounts existed for the European Gaza Hospital project, initiated in 1990, and the relocation of UNRWA's Vienna headquarters to the area of operations, the latter account having been established in accordance with the wish of the Agency's donors that the move not be financed out of the regular budget. As at June 1996, the Agency had received pledges and contributions of $41.2 million towards the hospital project and $9.6 million towards the headquarters move.

12. The 1995 shortfall in the regular budget, UNRWA's third consecutive annual deficit, came despite strenuous efforts on the Agency's part to bring income and expenditure into line. The $14.2 million in austerity measures imposed in 1993 remained in place throughout the 1994-1995 biennium and were carried over into 1996. In June 1995, the Agency estimated a year-end deficit of $16 million, which would have depleted its working capital entirely. To avert that outcome, $12 million in salary increases were deferred from 1995 to 1996, artificially and temporarily reducing the estimated deficit to $4 million. However, the delayed payment of some pledges, and requirements for the financing of certain non-regular but essential items from the General Fund in late 1995, increased the actual 1995 deficit to $8.4 million. Contributions from donors continued to lag behind growth in funding needs arising from the increase in the number of UNRWA's beneficiaries and unavoidable cost increases owing to inflation. In May 1996, the Agency projected a budget deficit of $16 million for the year. In immediate response and to contain expenditures not yet made, the Agency in June 1996 implemented a further $9 million in austerity measures, including freezes in recruitment for some posts and hiring for others, and reductions in the budget allocations for hospitalization, medical supplies, maintenance, construction, vehicles, computers, and equipment and supplies. Those measures, combined with the 1993 measures still in force, were having a detrimental impact on the quality of UNRWA services to the Palestine refugee population and jeopardized the Agency's ability to maintain those services at existing levels. In August 1996, the Agency faced estimated deficit figures totalling $45.2 million, of which $9.3 million represented the core deficit, $23.2 million the cost to restore the 1993 and 1996 austerity measures, and $12.7 million the annual provision for termination indemnities payable to staff upon UNRWA's eventual dissolution, included in the regular budget with the agreement of the Agency's donors. The Agency also found itself in a precarious cash position, with available reserves barely sufficient to meet routine payments and a possibility that the Agency would run out of cash in the months ahead.

13. The Commissioner-General of UNRWA and his staff continued to draw attention to the Agency's financial situation and to seek additional and increased contributions to fund ongoing programmes. To that end, two meetings of major donor and host Governments were held at Amman during 1996, on 8 and 9 May and on 23 September. The latter was an extraordinary meeting convened by the Commissioner-General to alert the international community to UNRWA's critical financial situation and its implications for the Agency's ability to carry out its internationally mandated obligations. Delegates represented 27 of the Agency's major donors and host Governments as well as the Palestine Liberation Organization. In response to an appeal by the Commissioner-General, pledges of about $14 million were made at the meeting in support of the Agency's work in 1996, of which $11.25 million was for the general fund in 1996, with the balance being for the European Gaza Hospital.

14. In view of the seriousness of the financial crisis facing the Agency, the Working Group, in informal consultations on 18 September 1996, agreed on the text of a statement which the Chairman of the Group forwarded to the Commissioner-General in time for the extraordinary meeting. In that statement, the Group stressed the following:

(a) The deficits facing UNRWA in recent years had become structural rather than temporary in nature and therefore must be addressed in terms of their impact on the services which the Agency was mandated to provide;

(b) The situation facing UNRWA in the last quarter of 1996 was untenable because its cash reserves had been depleted, and replenishment could only be effected by immediate payment of pledges already received; further future deficits could no longer be absorbed because the Agency's working capital would have been exhausted by the end of 1996;

(c) The Agency would start the 1997 budget year having reduced its budget volume through accumulated austerity measures and other reductions, depleted its financial reserves and lowered overhead costs to their practical limits, and the projected cumulative gap between expenditure and income would inevitably lead to ruptures in services;

(d) Because the Commissioner-General may not incur commitments beyond the level of the financial resources made available through contributions and confirmed pledges, the Agency's ability to continue to deliver its services in the remainder of the 1996-1997 budget biennium and beyond was absolutely limited to the level of funding provided, and expenditures therefore must be kept within the limits of funds actually made available.

15. The Working Group strongly urged those present at the extraordinary meeting to take serious and concrete steps to provide the financial resources required by the Agency to carry out its essential programmes and avoid creating an even more serious crisis with potentially dangerous and far-reaching consequences for the Palestine refugees and the entire Middle East region.

IV. CONCLUDING REMARKS

16. The Working Group views with profound concern the financial crisis facing UNRWA towards the end of 1996. The Group is particularly alarmed at the depletion of the Agency's working capital and the emergence of a condition of structural deficit which can no longer be remedied through the application of austerity measures and is therefore not sustainable over the longer term. That situation has serious implications for the Agency and the Palestine refugees, including the possibility of direct cuts and reductions in services. The Working Group feels that the General Assembly must be more actively engaged than in previous years in ensuring that UNRWA is given the resources it needs to fulfil the mandate which the international community has given it, particularly in view of the natural growth in the refugee population, the worsening socio-economic conditions in the Agency's area of operations and the potentially destabilizing effect on an already volatile political situation of any significant reduction in the Agency's activities.

17. The Working Group commends the Commissioner-General and his staff for their efforts at fund-raising, particularly for the organization of the 23 September 1996 extraordinary meeting, at which pledges were secured to ensure the Agency's uninterrupted operation through the end of 1996. The Working Group expresses appreciation to donors, especially those who provided emergency funding for the Agency in the current crisis, increased their contributions or expressed an interest in contributing for the first time. The Working Group joins the Commissioner-General in expressing the hope that the example set by those donors will be followed by others. The Working Group applauds the steps already taken by the Commissioner-General to improve UNRWA's internal management and reaffirms the need to continue efforts at increasing clarity, particularly concerning the cost-effectiveness of current operations, the prioritization and budgeting of UNRWA activities, and contingency planning for adjusting activities if sufficient funding to maintain the current quality and level of services cannot be secured. Greater clarity is also desirable regarding the harmonization of UNRWA's activities with those of the Palestinian Authority and host Governments. In the meantime, the Working Group believes that UNRWA should be circumspect about taking on additional capital commitments which strain its existing resources and which will lead to recurrent cost implications.

18. The Working Group shares the Commissioner-General's concern that the activities forming the core of UNRWA's services to Palestine refugees, namely education, health care, and relief and social services, are increasingly threatened as a result of the Agency's chronic budget deficits. It is a source of great concern that the Agency has been unable to raise the funds needed to restore services cut as a result of the austerity measures introduced in 1993 and still in force, and has been required to implement new measures in 1996. As the Commissioner-General has pointed out, while every effort was being made to streamline and rationalize the Agency's operations to avoid reductions in services to refugees, cost-saving measures can only be taken so far. If funding shortfalls continue, the Agency will have no choice but to effect substantive reductions in programme activities. In the coming years, UNRWA will have to identify and attract the resources it requires to serve a refugee population whose needs are growing by 5 per cent per year through a combination of natural growth, inflation and new registrations. Continuation of the present situation

of chronic structural deficits could force the Agency to make direct cuts and reductions in core programme areas, the ramifications of which would be highly political and potentially destabilizing. In the light of UNRWA's unique role in the region, a reduction in services would be immediately interpreted as reflecting a decreased commitment by the international community to the resolution of the Palestine refugee problem.

19. The Working Group therefore strongly urges all Governments to bear in mind the foregoing considerations when deciding upon the level of their contributions to UNRWA for 1997, and:

(a) Urges those Governments that have not yet contributed to UNRWA to start to do so;

(b) Urges those Governments that have so far made only relatively small contributions to increase their contributions;

(c) Urges those Governments that in the past have made generous contributions to UNRWA to continue to do so and to strive to increase them;

(d) Urges those Governments that traditionally have shown special interest in the welfare of the Palestine refugees, particularly those of the wealthier States in the region, to consider contributing or increasing their contributions;

(e) Urges Governments to consider making additional contributions to finance deficit amounts so that UNRWA services can continue uninterrupted and, if possible, to enable the Agency to restore services cut as a result of the austerity measures, and to ensure that donor support of emergency-related and special programmes, the Peace Implementation Programme, the European Gaza Hospital project and the costs of the relocation of the Agency's Vienna headquarters to the area of operations will not in any way decrease or divert contributions to the Agency's regular programmes.

Notes

1/ Official Records of the General Assembly, Twenty-fifth Session, Annexes, agenda item 35, document A/8264; ibid., Twenty-sixth Session, Annexes, agenda item 38, document A/8476; ibid., Twenty-seventh Session, Annexes, agenda item 40, document A/8849; ibid., Twenty-eighth Session, Annexes, agenda item 43, document A/9231; ibid., Twenty-ninth Session, Annexes, agenda item 38, document A/9815; ibid., Thirtieth Session, Annexes, agenda item 54, documents A/10268 and A/10334; ibid., Thirty-first Session, Annexes, agenda item 53, document A/31/279; ibid., Thirty-second Session, Annexes, agenda item 55, document A/32/278; ibid., Thirty-third Session, Annexes, agenda item 54, document A/33/320; ibid., Thirty-fourth Session, Annexes, agenda item 50, document A/34/567; A/35/526; A/36/615; A/37/591; A/38/558; A/39/575; A/40/736; A/41/702; A/42/633; A/43/702; A/44/641; A/45/645; A/46/622; A/47/576; A/48/554; and A/49/509.

2/ Resolutions 2791 (XXVI) of 6 December 1971, 2964 (XXVII) of 13 December 1972, 3090 (XXVIII) of 7 December 1973, 3330 (XXIX) of 17 December 1974, 3419 (XXX) of 8 December 1975, 31/15 C of 23 November 1976, 32/90 D of 13 December 1977, 33/112 D of 18 December 1978, 34/52 D of 23 November 1979, 35/13 D of 3 November 1980, 36/146 E of 16 December 1981, 37/120 A of 16 December 1982, 38/83 B of 15 December 1983, 39/99 B of 14 December 1984, 40/165 B of 16 December 1985, 41/69 B of 3 December 1986, 42/69 B of 2 December 1987, 43/57 B of 6 December 1988, 44/47 B of 8 December 1989, 45/73 B of 11 December 1990, 46/46 B of 9 December 1991, 47/69 B of 14 December 1992, 48/40 B of 10 December 1993 and 49/35 B of 9 December 1994.